



2013 Legislative Session
State Administration Committee
January 09, 2013
Roxanne M Minnehan, Executive Director
Montana Public Employee Retirement Administration

Montana Public Employees' Retirement Board

The Montana Public Employees' Retirement Board [§2-15-1009, MCA]

- Appointed by the Governor
- Confirmed by the Senate
- Appointments are for 5-year staggered terms
- Seven members consisting of:
 - Three active retirement system members; one must be a PERS-DCRP member
 - One retired PERS member
 - Two members "at large"
 - One member with investment management, counseling, financial planning or similar experience – liaison to Board of Investments

Public Employees' Retirement Board Members

	Appointed/ Reappointed	Term Expires	Email address
Scott Moore , President Active Member Miles City	4/1/2010	3/31/2015	Mperb.smoore@gmail.com
Terrence Smith , Vice-President Active Member Bozeman	4/1/2009	3/31/2014	Mperb.tsmith@gmail.com
Melissa Strecker Active Member Missoula	6/26/2012	3/31/2013	Mperb.mstrecker@gmail.com
Darcy Halpin PERS Retiree Belgrade	4/21/2008	3/31/2013	Mperb.dhalpin@gmail.com
Dianna Porter Member at Large Butte	4/8/2008	3/31/2013	Mperb.dporter@gmail.com
Timm Twardoski Member at Large Helena	4/1/2011	3/31/2016	Mperb.ttwardoski@gmail.com
Bob Bugni Investment Management Helena	12/13/2011	3/31/2014	Mperb.bbugni@gmail.com

PERB Mission Statement

*The Montana Public Employees' Retirement Board
as fiduciaries, administers its retirement plans and
trust funds, acting in the best interest of the
members and beneficiaries.*

Fiduciary Duty

The Public Employees' Retirement Board has a duty to conform to "fundamental fiduciary duties of loyalty and impartiality".

A fiduciary shall discharge duties with respect to a retirement system:

- Solely in the interest of the participants and beneficiaries.
- For the exclusive purpose of providing benefits to participants and beneficiaries.
- Impartially, taking into account any differing interests of participants and beneficiaries.
- Adherence to the duty of loyalty, prohibiting all transactions posing conflicts of interest.

Implementing fiduciary duty includes:

- Maintaining actuarially sound systems.
Article VIII, Section 15 of the Constitution and §19-2-409, MCA
- Employing an accredited actuary to value the systems. §19-2-405 (1), MCA
- Ensuring the plans are IRS "qualified" governmental plans.
- Maintaining a stable retirement foundation for our members. §19-2-403 (9), MCA
- Upholding member contract rights. §19-2-502(2), MCA
- Proposing legislation for all of the above. §19-2-403 (9), MCA

MPERA

The Montana Public Employee Retirement Administration consists of 46 management and administrative staff to the Board.

- MPERA does not invest the pension trust funds. That is done by the Montana Board of Investments. We have one Board member who also sits on the Board of Investments – Bob Bugni. The Chief Investment Officer at BOI presents regularly to the PERB.
- MPERA does administer the money in the pension trust from a public employee's first payday until they or their beneficiary receive their last guaranteed benefit payment.
- MPERA administration is inexpensive. Administrative costs for FY 2012 were \$5M for the management of all trusts – combined assets greater than \$5.4B.
- MPERA collects contributions each payday for 45,772 active members from approximately 600 state and local government employers.
- MPERA pays benefits to over 22,231 retirees and dependents each month.

The Retirement Plans

These core services are provided to members and employers covered by 10 distinct retirement plans (state and local government), each of which are qualified under federal tax law to defer income taxes until a benefit is received. [Reference *Green Sheets* for basic information on all plans as of June 30, 2012]

Public Employees' Retirement System (PERS)
– *Defined Benefit Retirement Plan (DBRP)*
– *Defined Contribution Retirement Plan (DCRP)*
Judges' Retirement System (JRS)
Highway Patrol Officers' Retirement System (HPORS)
Sheriffs' Retirement System (SRS)
Game Wardens' and Peace Officers' Retirement System (GWPORS)
Municipal Police Officers' Retirement System (MPORS)
Firefighters' Unified Retirement System (FURS)
Volunteer Firefighters' Compensation Act (VFCA)
State Deferred Compensation (457) Plan

All plans are defined benefit plans except the PERS-DCRP and the 457 Deferred Compensation Plan.

The PERS is the largest plan and provides coverage to employees of state agencies, counties, cities, local governments, and non-professional staff of the universities and school districts.

Approximately 7% of the PERS members have elected the DCRP (2,994 as of June 30, 2012).

Plan Distinctions

In the *Defined Benefit (DB) Plans*, the *benefit* is defined based on a formula:

Highest Average Compensation x Years of Service x Factor

Pension trust funds are well-funded in the *DB plans*, when there is enough money in reserve to meet all expected future obligations to participants. The Board's funding objective is to meet long-term benefit promises through contributions that remain approximately level as a percentage of member payrolls.

In *Defined Contribution (DC) plans*, the *contribution* is defined. The member is responsible to choose their own investments from a list of options. The benefit is the account balance (employee contributions, a portion of employer contributions, plus and earnings/losses).

The ***Deferred Compensation Plan*** is a voluntary retirement plan available to all state and university employees and any local government contracting with the Board. Its design is similar to a defined contribution plan.

Requirement for DB Plans to be Actuarially Funded

- The Montana Constitution Article VIII, Section 15
- State Law §19-2-409, MCA and
- The Governmental Accounting Standards Statement #25

All require that the retirement systems be funded on an actuarially sound basis.

What does it mean to be actuarially sound?

Plans to be funded on actuarially sound basis -- definition. As required by Article VIII, section 15, of the Montana constitution, each system must be funded on an actuarially sound basis. For purposes of this section, "actuarially sound basis" means that contributions to each retirement plan must be sufficient to pay the full actuarial cost of the plan. For a defined benefit plan, the full actuarial cost includes both the normal cost of providing benefits as they accrue in the future and the cost of amortizing unfunded liabilities over a scheduled period of no more than 30 years. For the defined contribution plan, the full actuarial cost is the contribution defined by law that is payable to an account on behalf of the member. §19-2-409, MCA

Based on the report of our actuary for June 30, 2012, four of the eight defined benefit plans were adequately funded with the actuarial liabilities amortizing within the 30 year limit. Four were not – PERS, GWPORS, SRS and HPORS.

Investments Play a Critical Role in Retirement Funding

- Investments are the largest source of funding
 - In PERS ER and EE contributions make-up 25%.
 - Almost 75% of income relies on investment returns.
- Investment returns along with employer contributions fund the benefits
- Investments have a powerful, far reaching effect
- Investments are volatile
- Investments need time grow – over the career-life of the employee

The devastating losses in FY 2008 and 2009 eroded retirement system assets across the nation. 7.97% is the average rate of return FY 1992 – FY 2012.

Because of actuarial smoothing – a process that spreads gains and losses over a four year period; we are still smoothing in a portion of the FY 2009 losses.

PERS – Rates of Return

Last 10 fiscal years

2012	2.56%
2011	21.68%
2010	12.87%
2009	-20.69%
2008	-4.86%
2007	17.96%
2006	9.05%
2005	8.13%
2004	13.43%
2003	6.61%

Employ an Accredited Actuary for Annual Valuations

The board shall retain a competent actuary who is an enrolled member of the American academy of actuaries and who is familiar with public systems of pensions. The actuary is the technical adviser of the board on matters regarding the operation of the retirement systems. §19-2-405 (1) MCA

The Board's actuary is Cherion.

Maintain Sustainable Retirements

Montana Code Annotated also requires the Board to maintain a stable standard of living for its members:

The board shall review the sufficiency of benefits paid by the retirement system or plan and recommend to the legislature those changes in benefits in a defined benefit plan or in contributions under the defined contribution plan that may be necessary for members and their beneficiaries to maintain a stable standard of living. §19-2-403 (9), MCA

Uphold Member Contract Rights

Current members and retirees have a contract right to the benefits in statute on their date of hire.

Benefits and refunds to eligible recipients are payable pursuant to a contract as contained in statute. The contract is entered into on the first day of a member's covered employment and may be enhanced by the legislature. §19-2-502(2), MCA

Therefore, prospective changes that reduce retirement benefits are limited to new hires.

New hires do not create unfunded liability; in fact, retirement systems depend on some employer contributions of future members' salaries to pay for the existing liability.

Due to the nature of retirement plans, it will take a generation to see the results of any changes to retirement plan design on the actuarial unfunded liability.

It is the Board's policy to not support benefit enhancements that do not include a funding mechanism. It is also the Board's policy to maintain a sustainable benefit level to our members. Retirement plans are a part of the benefit package provided by employers. Promoting a good retirement plan helps with:

- Recruitment
- Retention
- Rewards Loyal Service and
- Makes Retirement Possible.

2013 Legislation

HB 96 – Funding proposal for PERS, GWPORS, SRS & HPORS Sponsored by Representative Franke Wilmer

The PERS, GWPORS, SRS and HPORS are actuarially unsound. The contributions set in statute do not meet the annual required contributions (ARC). Plan design changes for new hires were implemented last session. Therefore, the board is proposing an increase to the plans funding through increased employer contributions.

Because the ARC has not been received; a funding shortfall has been created. This funding shortfall has not been addressed. The shortfall continues to grow. Funding has become a major issue.

History of Funding Shortfalls (as a % of Payroll)				
FY	PERS	SRS	GWPORS	HPORS
2008				
2009	2.35	2.53		
2010*	5.01	4.03	3.47	
2011	6.32	5.22	3.80	5.33
2012	6.527	5.85	3.64	5.78

*FY 2010 – actuarial assumed rate of return decreased from 8% to 7¾%

The proposal increases employer contributions by 0.25% each year for four years. The increases will be monitored and proposals made to reduce the increases when the plan is able to amortize the Unfunded Actuarial Liability over 25 years.

The Board realizes that this proposal will not return the plans to actuarial soundness. However, it is a step in the right direction, without over burdening local government. The

Board anticipates and supports legislation seeking additional funding sources such as the Coal Tax Fund. The Board also supports the governor's proposal; however, the status of that bill has not been finalized.

HB 95 – Require employer contributions on working retiree compensation
Sponsored by Representative Franke Wilmer

Require employers continue to pay the employer contributions on working retirees. The systems that allow working retirees are: PERS, SRS, and FURS.

This bill only impacts those systems that allow working retirees. This bill does not impact the employers' budgets. All retirement system covered positions require employee and employer contributions. This bill continues to require employer contributions if the retirement system covered position is filled with a working retiree. A similar provision is included in the TRS.

HB 97 – Caps highest average compensation in all PERB-administered systems
Sponsored by Representative Franke Wilmer

Establishes a cap of 115% applied to compensation earned during the highest average compensation period. This bill applies to all new hires in all retirement plans administered by MPERA. The objective is to ensure that the final highest average compensation period is not unreasonably inflated. A similar provision is included in the TRS.

HB 91 – Modify and expand state 457 deferred compensation plan
Sponsored by Representative Ryan Lynch

Currently state statute addresses deferred compensation plan contributions as only pre-tax contributions. The Board would like to include a ROTH 457 investment option. ROTH 457 contributions are post-tax; requiring an amendment to current statute.

HB 105 – Ensure federal IRS qualification of MPERA retirement systems
Sponsored by Representative Bryce Bennett

Internal Revenue Code and Federal Regulations are continually changing. Recent changes have been made to the definitions of "normal retirement age" and "governmental entities". Therefore, the Board is proposing legislation to comply with IRS regulations.

HB 105 – Generally revisions bill

Our biennial housekeeping bill and has no fiscal impact. This will include general revisions to statutes administered by MPERA to clarify statute for the user.

Last Session Changes to PERS

HB 122 proposed increasing the retirement age from 60 to 65, phasing in the retirement factor*, increasing HAC period from three years to five years, increasing contributions for new hires by 1%, and increasing employer contributions by 1% each year of the biennium. The employer increase was eliminated prior to passage of the bill. Increasing the retirement age reflects longer longevity and working careers. Phasing in the multiplier rewards career employees. Increasing the HAC addresses salary inflation.

*The retirement factor used to calculate the retirement benefit for all new hires as of July 1, 2011 is:

=>1.5% per year if service is less than 10 years,

=>1.785% per year if service is greater than or equal to 10 years but less than 30 years,

=>2% per year if service is greater than or equal to 30 years.

Because these changes are for new hires only, the impact to the funding will not be realized for approximately 15 years. At that time the normal cost is expected to be reduced by 4%.

Summary

The Board appreciates the job the legislature has before them. The Board understands the past legislature's position for eliminating the funding in the Board's bills. The funding issues need to be addressed before they become worse.

In conclusion, I would like to leave you with these facts:

- Montana public employees share in the financing of their pensions.
- Montana public pension plans remain a small portion of state and local government budgets.
- Retirement benefits assist with recruitment and retention of qualified employees.
- Public pension plans provide financial security in retirement offsetting the need for public assistance.
- The legislature has taken steps to address long-term plan sustainability.
- Long-term investment returns continue to exceed expectations.
- Pension dollars help the economy at every level. [Reference *2012 Annual Benefits Paid*]

Contact Information

We offer our assistance during this legislative session. We would like to continue to work together to provide sustainable, equitable retirement plans for all.

Please feel free to contact us:

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